



TWENTY-FIRST ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31ST, **1968**

KEY ANACON MINES LIMITED

BOARD OF DIRECTORS

LAWRENCE F. DALEY Halifax, Nova Scotia
ROBERT J. ISAACS Islington, Ontario
GORDON L. MOORE Islington, Ontario
WALLACE D. MACAULAY Saint John, New Brunswick
J. IAN M. WHITCOMB Saint John, New Brunswick

OFFICERS

ROBERT J. ISAACS President
GORDON L. MOORE Vice-President and Treasurer
WALLACE D. MACAULAY Secretary
KEITH A. WALKER Assistant Treasurer

REGISTRAR AND TRANSFER AGENT

GUARANTY TRUST COMPANY OF CANADA Toronto, Montreal, and Vancouver

AUDITORS

THORNE, GUNN, HELLIWELL & CHRISTENSON, Chartered Accountants,
Toronto, Ontario

HEAD OFFICE

SUITE 908, 330 BAY STREET Toronto, Ontario

KEY ANACON MINES LIMITED

Directors' Report

To the Shareholders:

Your Directors submit for your consideration the Twenty-first Annual Report of your Company for the year ended December 31, 1968. Included with the Report is a copy of the Financial Statements and the Auditors' Report.

Financing

A general meeting of the Shareholders was held in Toronto on January 15, 1969. The Shareholders, at this meeting, approved increasing the capital stock of the Company from 6,000,000 shares to 10,000,000 shares and the offering of Rights to the Shareholders to purchase one new share of stock at sixty cents per share for each four shares held. The Shareholders also authorized your Directors to offer the holders of the Convertible Debentures the right to convert all or part of the outstanding Convertible Debentures, plus any interest owing on these Debentures, into shares of Key Anacon Mines Limited at the market price on date of conversion less twenty percent or sixty cents per share, whichever price was higher. The Debentures could be converted up to three days before the record date of the proposed rights offering.

On February 14, 1969, the rights offering was made to the Company's shareholders at sixty cents per share. Prior to this date, the debenture holders exercised their conversion privilege and debentures having a principal value of \$540,000 (together with accrued interest thereon of \$193,-069) were surrendered in exchange for 1,154,240 treasury shares.

Your Directors are pleased to report that over ninety-two percent of this offering was taken up by the shareholders and the balance was taken up in accordance with the underwriting agreement. In total, 1,633,231 shares were issued for \$979,938. This amount has been applied to reduce the Company's current liabilities.

Holdings in Other Companies

Your Company has maintained its holding of 595,900 common shares of Brunswick Mining and Smelting Corporation Limited which had a market value at December 31, 1968 of approximately \$4,946,000. The annual report for Brunswick has already been circulated to its shareholders. Operations of this mining and smelting complex in New Brunswick showed a significant improvement in 1968 as compared with 1967 although net revenues are not yet sufficient to cover depreciation and other write-offs. The President of Brunswick has stated that he is looking forward to further improvement in the current year. Of particular significance to your Directors was the fact that ore reserves of Brunswick Mining and Smelting Corporation increased from 81,353,000 tons at December 31, 1967 to 91,600,900 tons at December 31, 1968 after the removal of some 2,700,000 tons of ore during the year.

THE NEW BRUNSWICK PROPERTY

The Company's base metal property in Gloucester County, New Brunswick, remained inactive during 1968. Your Company, as of December 31, 1968, had invested \$2,685,829 in

this property. Extensive underground development work has been completed on the number 2 and number 2A ore zones and one stope on the number 2 ore zone has been developed for mining.

Development Work

The mine development work completed to date is summarized below:

No. 1 Shaft	1,500 Lin. Ft.
Stations	100,000 Cu. Ft.
Cross Cuts and Drifts	7,000 Lin. Ft.
Raising	4,575 Lin. Ft.
Stope Preparation	3,732 Lin. Ft.

In addition there has been approximately 62,040 feet of underground diamond drilling completed and 52,181 feet of surface diamond drilling.

Ore Reserves

Ore reserves developed to date have been estimated as follows. Tonnages and grades are before depletion allowances.

Zone	Tons	Lead %	Zinc %	Copper %	Silver Oz/Ton
Proven Ore	1,859,000	3.03	7.43	0.20	2.67
Probable Ore	575,000	1.62	6.39		1.70

OTHER MINING PROPERTIES

Province of Quebec

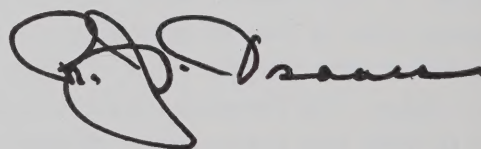
Your Company at year's end still retained, in good standing, the gold-copper property in Rohault and La Dauversier Townships in the Province of Quebec. This property comprises an area of 1,716 acres and is held under Development Licenses and Mining Concessions. The property has been inactive since 1960.

The Mining Claims and Mining Concessions in Cadillac Township, Quebec, are also continued in good standing. No exploration or development work was carried out thereon during the past year.

Province of Ontario

Your Company continues to hold 24 patented mining claims, or a total of 727 acres in the Townships of McGarry and McFadden in Ontario. No exploration work was carried out on these claims during the year under review.

On behalf of the Board of Directors,



R. J. ISAACS,
President.

Toronto, Ontario,
April 30, 1969.

Thorne,
Gunn,
Helliwell
& Christenson

CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Shareholders of
Key Anacon Mines Limited

We have examined the balance sheet of Key Anacon Mines Limited as at December 31, 1968 and the statements of retained earnings, contributed surplus, deferred development and administrative expenditures and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1968 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne, Gunn, Helliwell & Christenson

Chartered Accountants.

Toronto, Canada
February 13, 1969

KEY ANACON

(Incorporated under the laws of the State of New York)

Balance Sheet—December 31, 1968 (with comparative figures for 1967)

ASSETS		1968	1967
Current Assets			
Cash	\$	1,103	
Accounts receivable		743	\$ 957
Prepaid expenses		2,223	2,900
		<u>4,069</u>	<u>3,857</u>
Other Assets			
Investments (Schedule A)		2,231,377	2,231,377
Stores and supplies, at cost		38,279	38,279
		<u>2,269,656</u>	<u>2,269,656</u>
Mining Properties, Land, Buildings, Plant and Equipment and Deferred Development and Administrative Expenditures (Schedule B)			
Mining properties		203,485	223,355
Land, buildings, plant and equipment		513,192	545,524
Deferred development and administrative expenditures		5,846,252	5,678,742
		<u>6,562,929</u>	<u>6,447,621</u>
		<u><u>\$8,836,654</u></u>	<u><u>\$8,721,134</u></u>

Approved by the Board

R. J. ISAACS, Director.

G. L. MOORE, Director.

MINES LIMITED

(Incorporated under the laws of Ontario)

December 31, 1968

(as at December 31, 1967)

LIABILITIES

	1968	1967
Current Liabilities		
Bank advances		\$ 108,587
Accounts payable and accrued liabilities	\$ 303,410	325,821
Promissory notes	115,000	
Instalment due within one year on convertible debentures		180,000
	<u>418,410</u>	<u>614,408</u>
Bank Loan (note 1)	<u>1,071,289</u>	<u>1,071,289</u>
6% Convertible debentures (note 2)	<u>540,000</u>	<u>540,000</u>
Less instalment due October 15, 1968 included in current liabilities		180,000
	<u>540,000</u>	<u>360,000</u>
Accrued interest to December 31, 1968	<u>189,030</u>	
	<u>729,030</u>	<u>360,000</u>

SHAREHOLDERS' EQUITY

Capital Stock (note 2)		
Authorized — 6,000,000 shares of the par value of 20 cents each		
Issued — 5,378,686 shares	1,075,737	1,075,737
Contributed surplus	<u>3,306,795</u>	<u>3,306,795</u>
Retained earnings	<u>2,235,393</u>	<u>2,292,905</u>
	<u>6,617,925</u>	<u>6,675,437</u>
	<u>\$8,836,654</u>	<u>\$8,721,134</u>

KEY ANACON MINES LIMITED

SCHEDULE A

INVESTMENTS December 31, 1968

	No. of shares	
Brunswick Mining and Smelting Corporation Limited (Note A)	595,900	\$2,086,262
Hewbet Mines Limited	400,000	130,000*
Bachelor Lake Gold Mines Limited (Note B)	125,000	9,375*
Bocabois Gold Mines Limited (Note B)	164,000	5,740*
		<u>\$2,231,377</u>

* figures represent cost.

Note A

In 1953 the company received shares of Brunswick Mining and Smelting Corporation Limited as consideration for interest in mining claims. These shares were valued by the company at that time at \$20 per share. In 1960 by resolution of the Board, these shares were reduced to \$3 per share, being the approximate quoted market value as at December 31, 1960. Other shares are valued at cost.

Note B

Acquired from New Larder "U" Island Mines Limited in 1955 under the terms of the plan of re-organization dated December 17, 1954.

Note C

The quoted market value of investments is \$5,198,635 (\$2,953,705 in 1967) in the aggregate but, because of the large blocks of shares involved, quoted market value is not necessarily indicative of the amount that might be realized if these investments were to be sold.

KEY ANACON MINES LIMITED

SCHEDULE B

MINING PROPERTIES, LAND, BUILDINGS, PLANT AND EQUIPMENT AND DEFERRED DEVELOPMENT AND ADMINISTRATIVE EXPENDITURES

December 31, 1968

	Mining properties	Land, buildings, plant and equipment	Deferred development and administrative expenditures	Total
24 Patented mining claims in the Township of McGarry and McFadden, Ontario, at cost	\$ 2,200			\$ 2,200
2 Mining licenses comprising 2,242 acres in Parish of Bathurst, County of Gloucester, New Brunswick, at cost	66,340	\$ 499,422	\$2,120,067	2,685,829
32 Mining claims and 3 mining concessions in the Township of Rohault and La Dauversiere, Chibougamau Area, Quebec, at cost	119,945	13,770	2,358,486	2,492,201
Less written off to date			637,789	637,789
	119,945	13,770	1,720,697	1,854,412
11 Mining claims and 2 mining concessions in Township of Cadillac, Quebec, at cost	15,000			15,000
5 Mining claims in the Lac Romanet Area, Quebec, at cost	19,870		9,013	28,883
Less written off during the year on abandon- ment	19,870		9,013	28,883
	—		—	—
Administrative expenditures			2,005,488	2,005,488
	\$ 203,485	\$ 513,192	\$5,846,252	\$6,562,929

KEY ANACON MINES LIMITED

Statement of Retained Expenses

Year ended December 31, 1968
(with comparative figures for 1967)

	1968	1967
Balance at beginning of year	\$2,292,905	\$1,443,615
Gain on sale of investments		877,875
	<u>2,292,905</u>	<u>2,321,490</u>
Deduct		
Mine equipment abandoned	28,629	28,585
Mining claims abandoned	19,870	
Deferred development on claims abandoned	9,013	
	<u>57,512</u>	<u>28,585</u>
Balance at end of year	<u>\$2,235,393</u>	<u>\$2,292,905</u>

Statement of Contributed Surplus

Year ended December 31, 1968
(with comparative figures for 1967)

	1968	1967
Balance at beginning of year	\$3,306,795	\$3,162,795
Premium on shares issued during the year		144,000
Balance at end of year	<u>\$3,306,795</u>	<u>\$3,306,795</u>

Statement of Deferred Development and Administrative Expenditures

Year ended December 31, 1968

	Balance at beginning of year	Expenses for year	Written-off during year	Balance at end of year
Development Expenses				
New Brunswick property	\$2,113,371	\$ 6,696		\$2,120,067
Chibougamau property	1,718,114	2,583		1,720,697
Lac Romanet property	9,013		\$ 9,013	
	<u>3,840,498</u>	<u>9,279</u>	<u>9,013</u>	<u>3,840,764</u>
Administrative expenses	1,838,244	167,244		2,005,488
	<u>\$5,678,742</u>	<u>\$ 176,523</u>	<u>\$ 9,013</u>	<u>\$5,846,252</u>

KEY ANACON MINES LIMITED

Development Expenses

Year ended December 31, 1968
(with comparative figures for 1967)

	1968	1967
NEW BRUNSWICK PROPERTY		
Dewatering and mine rehabilitation		\$ 15,355
Drifting, crosscutting and diamond drilling		274
Raisings		847
Temporary shutdown expenses		3,317
Loss on sale of equipment	\$ 1,520	
	<u>1,520</u>	<u>19,793</u>
Mine Office Overhead		
Staff house and residence expense		1,087
Fire protection	6,281	6,032
Travel and freight	429	1,335
Insurance and taxes	9,312	6,245
Mine office and warehouse expense	2,289	3,371
Employee benefits	397	1,172
Sundry	143	8
	<u>18,851</u>	<u>19,250</u>
Less rentals on residences and equipment	13,675	3,947
	<u>5,176</u>	<u>15,303</u>
	<u>\$ 6,696</u>	<u>\$ 35,096</u>
CHIBOUGAMAU PROPERTY		
Salvage and recovery of prior years' expenses		\$ 3,899
		<u>3,899</u>
Deduct Expenses		
Mining licenses and fees	\$ 2,462	2,608
Taxes	121	117
	<u>2,583</u>	<u>2,725</u>
	<u>\$ 2,583</u>	<u>\$ (1,174)</u>

KEY ANACON MINES LIMITED

Administrative Expenses

Year ended December 31, 1968
(with comparative figures for 1967)

	<u>1968</u>	<u>1967</u>
Interest and bank charges, including debenture interest of \$49,599 (\$42,557 in 1967)	\$ 138,289	\$ 143,744
Transfer agent and registrar fees	4,953	2,292
Administration	4,251	14,250
Reports to shareholders	7,212	2,975
Printing, stationery and postage	505	4,533
Maps and blueprints	230	34
Telephone and telegraph	383	290
Engineering and consulting fees	3,252	814
Travel expense	816	741
Filing, listing and sustaining fees	920	420
Legal and audit	300	250
Directors' fees	5,917	6,326
Sundry	216	376
	<u>\$ 167,244</u>	<u>\$ 177,045</u>

KEY ANACON MINES LIMITED

Statement of Source and Application of Funds

Year ended December 31, 1968
(with comparative figures for 1967)

Source of Funds	1968	1967
Sale of investment		\$1,972,318
Current instalment of 6% debenture reclassified (note 2)	\$ 180,000	
Accrued interest on debentures (note 2)	189,030	
Disposal of equipment	3,703	1,023
	<u>372,733</u>	<u>1,973,341</u>
 Application of Funds		
Reduction of bank loan		1,803,711
Additions to building and equipment		172
Increase in stores and supplies, net		961
Development and administration expenditures	176,523	211,137
	<u>176,523</u>	<u>2,015,981</u>
Increase (decrease) in working capital position	196,210	(42,640)
Working capital deficiency at beginning of year	610,551	567,911
Working capital deficiency at end of year	<u>\$ 414,341</u>	<u>\$ 610,551</u>

KEY ANACON MINES LIMITED

Notes to Financial Statements

Year ended December 31, 1968

1. BANK LOAN

Bank loan is secured by pledge of shares of Brunswick Mining and Smelting Corporation Limited.

2. SUBSEQUENT EVENTS

Subsequent to December 31, 1968 the following events occurred.

1. Supplementary letters patent were obtained January 20, 1969 increasing the number of authorized shares from 6,000,000 shares to 10,000,000 shares at par value of 20¢.
2. All the 6% convertible debentures plus accrued interest to date of conversion were converted (under the terms of the Trust Indenture as amended November 5, 1968) into 1,154,240 fully paid shares increasing issued capital stock by \$230,848 and contributed surplus by \$502,221.

As the convertible debentures and accrued interest are not to be paid from current funds the current portion due and the accrued interest on the debentures have been reclassified as non-current liabilities.

3. Shareholders of record February 14, 1969 were issued rights to purchase up to March 14, 1969 one (1) share at 60¢ for each four (4) shares held. The company arranged a standby underwriting agreement whereby the company is assured of receiving 60% of the full dollar amount receivable from the rights offering. The underwriter was given the option to purchase at 60¢ per share all or any part of any other shares offered and not subscribed by shareholders and under the standby underwriting agreement.

3. OTHER STATUTORY INFORMATION

The remuneration of directors and senior officers (as defined by The Corporations Act, which includes the five highest paid employees) amounted to \$5,917, (\$15,326 for 1967).

